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State of Montana

Report to the Legislature

DEPARTMENT OF HIGHWAYS

Financial-Compliance Audit for the Two Fiscal Years Ended June 30, 1985

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This report contains recommendations in the following areas:

- | | |
|-------------------------|---------------------------------------------------------------------------------------|
| Inventories— | To improve inventory procedures and financial reporting. |
| Accounting— | To properly use prior year and cash cutoff control accounts. |
| Compliance— | To use proper indirect cost rates and make purchases in accordance with state policy. |
| Data Processing— | To improve access and systems development controls. |

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant impact on the financial schedules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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STATE OF MONTANA

Report of the Legislature

DEPARTMENT OF HIGHWAYS

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985

Members of the audit staff involved in this audit were: Mark Bruno, Mike Donovan, Wayne Kedish, Jim Manning, Karen Nicholls, Jim Pickens, Kurt Siltman, Gloria Varner, Brian Zwang.

STATE OF MONTANA

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SCOTT A. SEACAT
LEGISLATIVE AUDITOR

December 1985

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The Legislative Audit Committee
of the Montana State Legislature:

This document is our financial-compliance report on the Department of Highways' financial activity for fiscal years 1983-84 and 1984-85. The department's written response to audit recommendations is included in the back of the audit report.

We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF HIGHWAYS

STATE HIGHWAY COMMISSION

		<u>Term Expires</u>
Hert Hellebust, Chairman	Havre	1989
Maria Murray	Butte	1989
Paul Foster	Billings	1989
Gerald Archambeault	Glasgow	1986
Roy Duff	Whitefish	1986

ADMINISTRATIVE OFFICIALS

Gary Wicks	Director Department of Highways
John Prebil	Deputy Director Department of Highways
William Salisbury	Administrator Centralized Services Division
Don Harriott	Administrator Engineering Division
Donald Gruel	Administrator Maintenance & Equipment Division
Donald Copley	Administrator Gross Vehicle Weight Division
James Beck	Administrator Legal Division
Russell McDonald	Administrator Personnel Division
Robert Champion	Administrator Program Development Division

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation #1

The department:

- A. Clarify responsibility and authority for counts of gravel materials to ensure the inventory is done in accordance with department instructions. 5

Agency Response: Concur. See page 35.

- B. Assign personnel to review adjustments to MMS for reasonableness. 5

Agency Response: Concur. See page 35.

Recommendation #2

The department follow its inventory count procedures. 5

Agency Response: Concur. See page 35.

Recommendation #3

The department follow the year-end cutoff instructions provided by the Department of Administration. 7

Agency Response: Concur. See page 36.

Recommendation #4

The department record revenue in accordance with state accounting policy. 8

Agency Response: Concur. See page 36.

Recommendation #5

The department include costs in the indirect cost rate base in accordance with federal guidelines. 10

Agency Response: Concur. See page 36.

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Recommendation #6

The department revise its ACF2 rules to limit access to programs and data files to only those employees needing it to perform their duties.

12

Agency Response: Concur. See page 37.

Recommendation #7

The department establish a policy discouraging the use of easily-guessed passwords.

12

Agency Response: Concur. See page 37.

Recommendation #8

The department ensure access privileges are cancelled for terminated employees.

13

Agency Response: Concur. See page 38.

Recommendation #9

The department develop written systems development and testing standards.

13

Agency Response: Concur. See page 38.

INTRODUCTION

We performed a financial-compliance audit of the Montana Department of Highways for the two fiscal years ended June 30, 1985. The objectives of the audit were to: 1) determine if the financial schedules present fairly the changes in fund balance and results of operations of the department for the two fiscal years ended June 30, 1985; 2) determine department compliance with applicable laws and regulations which could have a significant effect on the financial schedules; and 3) make recommendations for improvements in the management and internal accounting controls of the department.

This report contains nine recommendations to the department. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the department programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

GENERAL

The department is responsible for the planning, layout, construction, improvement, repair, and maintenance of state highways and federal aid system highways. The department, through the Gross Vehicle Weight Division (GVW), enforces the laws and regulations related to special fuel vehicle licenses, gross vehicle weight fees, and size and weight permits. The GVW Division operates weigh stations and portable scales throughout the state. The department also operates the state motor pool. The director of the Department of Highways is appointed by the Governor, confirmed by the senate and serves as department head. The State Highway Commission is a five-member commission appointed

by the Governor. The commission is responsible for determining construction priorities, selecting construction projects and the allocation of financial aid. It is also responsible for the designation of federal aid highways, primary highways, and off-system highways in the state maintenance system. The commission may delegate certain functions to the director of the Department of Highways.

The department spent approximately \$246,258,000 in fiscal year 1983-84 and \$290,623,000 in fiscal year 1984-85 to carry out its programs. The department's activities are organized under the seven divisions listed below, each headed by an administrator:

1. Centralized Services
2. Personnel
3. Legal
4. Engineering
5. Program Development
6. Maintenance and Equipment
7. Gross Vehicle Weight

The department also maintains the following four units, each headed by a manager who reports directly to the director:

1. Information
2. Audit
3. Aircraft
4. Civil Rights

Effective September 7, 1982, the department created five districts for the purpose of administration of department operations at the eleven former field divisions. The five district headquarters are located at Missoula, Butte, Great Falls, Billings, and Glendive. Each district also has one or more area offices.

The following report sections discuss areas of concern noted during our audit of the department.

INVENTORIES

Gravel Materials Inventory

In response to House Bill 447, Laws of 1983, the department implemented a Maintenance Management System (MMS), which accumulates all costs associated with road maintenance, including sanding and patching activities. This system is designed to provide management with accurate information on which to base its budget data. In addition, MMS identifies the physical location of and the activity associated with gravel, premix, asphalt and sanding material. The MMS system is the basis for gravel, road oil, and plant mix inventory information entered onto SBAS.

Responsibility for recording on-going inventory activity, inventory counts, and updating the Statewide Budgeting and Accounting System (SBAS) is divided among three administrative areas. The Maintenance Division records the day-to-day inventory activity, as well as inventory count data on MMS. The Inventory and Purchasing Bureau is responsible for coordinating the performance of the gravel materials counts, while the Accounting Bureau updates SBAS based on amounts reflected on MMS.

We also noted problems during the accumulation of count information from the field offices. Persons assigned responsibility in the Maintenance Division and the Inventory and Purchasing Bureau were not given the authority to ensure all information was returned in a reasonable and usable fashion. In addition, some district personnel did not follow department inventory directives. This resulted in the following situations:

1. The Helena office did not receive information on gravel counts from three of eleven area offices. Without the information the Helena office could not update MMS for actual gravel inventory on hand.
2. Gravel inventory at two of the areas was not completed. The instructions issued by the Helena office stated, in part, that all locations were to be counted by the end of March 1985. As of September 1985, some locations still had not measured the gravel.

3. Gravel count procedures were interpreted differently among areas. Not all areas sent in actual calculated cubic yardage to the Helena office. Some areas made adjustments to gravel piles for compaction and irregular shape while other areas did not.
4. Adjustments were not made to MMS for all differences between actual quantities counted and the amounts recorded on MMS. Each area was responsible for notifying the Helena office of its decision to update MMS or not to update based on the significance of those differences. The Helena office did review the decision. However, in some cases no adjustments were made for significant differences while in other cases only partial adjustments were made.

Based upon the information available at the Helena office, we determined MMS at June 30, 1985, is overstated by at least \$261,389. Because complete information was not available we were unable to compute the total misstatement.

In addition, during the 1984-85 fiscal year-end period, errors were made by the Accounting Bureau in updating SBAS for the actual amounts on MMS. Due to error an incorrect number was recorded resulting in a \$6.2 million difference in gravel inventory between SBAS and MMS.

As a result of the inventory errors, the following net misstatements were noted on SBAS in the Special Revenue Fund at June 30, 1985. Accordingly these errors to ending fund balance (reserve for merchandise inventory) resulted in a qualified opinion on the department's financial schedules as discussed in our opinion on page 17.

<u>Account</u>	<u>Over(Under) Statement</u>
Merchandise Inventory	\$(5,949,495)
Ending Fund Balance (Reserve for Merchandise Inventory)	(5,949,495)

Both SBAS and MMS should reflect accurate financial information. This ensures internal management decisions, as well as those of outside users of department financial information, are based on accurate information.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT:

- A. CLARIFY RESPONSIBILITY AND AUTHORITY FOR COUNTS OF GRAVEL MATERIALS TO ENSURE THE INVENTORY IS DONE IN ACCORDANCE WITH DEPARTMENT INSTRUCTIONS.
- B. ASSIGN PERSONNEL TO REVIEW ADJUSTMENTS TO MMS FOR REASONABLENESS.

Stores Inventory

We observed the department count of stores inventory at two of eleven areas and at the Helena headquarters. We reviewed inventory count procedures, controls over inventory, and performed test counts at each division visited.

As in past years, the department provided a detailed memorandum to its employees describing adequate inventory count procedures. These procedures relating to inventory cutoff were not followed at one site. Stock items recently received from Helena headquarters and in possession of the division were improperly excluded from the department's count. A division employee indicated the items were excluded because the related invoices had not been received. Instructions issued by headquarters stated, in part, transfers of items to the field become the responsibility of the field when they physically leave Helena stores.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT FOLLOW ITS INVENTORY COUNT PROCEDURES.

ACCOUNTING ISSUES

During our audit we noted several instances where, due to human error, financial transactions were not recorded in accordance with state accounting policy. The errors resulted in mis-

statements to the fiscal year-end cash cutoff accounts, the prior year revenue account, inventory, and fund balance. These instances are addressed below and in the inventory report section on page 3.

Cash

The Department of Administration provides a memorandum detailing instructions for recording transactions occurring during the year-end adjustment period. The Department of Highways improperly applied the cash cutoff instructions contained in management memo 2-85-2 at fiscal year-end 1984-85. The department used the fiscal year-end cash cutoff accounts to record transactions occurring between accounting entities within the same funds. The memo states these intrafund transactions are to be recorded using the cash in treasury account. In addition, the department improperly used the cash in treasury account to record transactions occurring between the Special Revenue and Internal Service Funds. The memo states these interfund transactions are to be recorded using the cash cutoff adjustment accounts. As a result the following misstatements were noted on SBAS.

<u>Account</u>	<u>Over (Under) Statement</u>	
	<u>Special Revenue Fund</u>	<u>Internal Service Fund</u>
Due From Fiscal Year-End Cutoff Adjustment	\$5,741,672	\$2,621
Due To Fiscal Year-End Cutoff Adjustment	5,738,906	145
Cash in Treasury	(2,766)	2,766

The department should comply with the year-end cutoff instructions provided by the Department of Administration to ensure transactions are properly recorded at year-end.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT FOLLOW THE YEAR-END CUTOFF INSTRUCTIONS PROVIDED BY THE DEPARTMENT OF ADMINISTRATION.

Prior Year Revenue

The department did not utilize the prior year revenue account in accordance with state accounting policy when accounting for equipment transfers and recording investment revenue as described in the following paragraphs.

The department routinely uses Special Revenue Fund moneys to purchase assets for the equipment bureau which are accounted for in the Internal Service Fund. Subsequent to purchase, the assets are transferred from the Special Revenue Fund to the Internal Service Fund.

Under state policy at the time of transfer, the Internal Service Fund should recognize nonbudgeted revenue for the assets transferred. The department incorrectly recorded \$1,621,211 of assets received in fiscal year 1984-85 as prior year revenue, which resulted in a fiscal year 1984-85 prior year revenue overstatement and nonbudgeted revenue understatement of \$1,621,211 in the Internal Service Fund.

In addition, the department incorrectly recorded investment revenue earned as of June 30, 1984, in fiscal year 1984-85 even though this revenue had been properly recorded as fiscal year 1983-84 accrued revenue. Consequently, this revenue was recorded in both fiscal years. When the department prepared the entry in fiscal year 1984-85 it recorded a prior year revenue abatement which resulted in the following errors in fiscal year 1984-85.

<u>Special Revenue Fund</u>	<u>Over (Under) stated</u>
Revenue	\$2,614,846
Prior Year Revenue	(2,614,846)
 <u>Expendable Trust Fund</u>	
Prior Year Revenue	(7,831)
Revenue Nonbudgeted	7,831

The misstatements resulted in a qualified opinion on the departments financial schedules as discussed in our opinion on page 17. The prior year revenue understatement and the revenue overstatement result in a zero effect on fund balance at June 30, 1985.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT RECORD REVENUE IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget "Circular A-102, Attachment P." This circular provides for independent audits of financial operations, including compliance with certain federal laws and regulations.

The Department of Highways received funds from the Federal Highway Administration and the Bureau of Land Management. We reviewed major compliance areas for the grants. Areas reviewed included specific grant provisions and cost allowability.

It is our opinion that the problems we found regarding indirect costs (page 9) did not significantly affect the successful operation of the program or the allowability of costs in conformity with program regulations. For items we did not specifically test for compliance, nothing came to our attention that would indicate

instances of noncompliance with applicable federal laws and regulations.

We also reviewed compliance with state laws that could have a material impact on the financial schedules of the Department of Highways. In our opinion, the department complied with the state laws and regulations tested. For items we did not specifically test for compliance, nothing came to our attention that would indicate instances of noncompliance.

Indirect Costs

As a regular part of our audit process, we contact federal agencies providing federal revenue to the agency being audited to determine if the federal agencies have any special concerns. At the request of the U.S. Department of Transportation, we reviewed the department's indirect cost rate proposals for the audit period.

Department of Highways negotiates an indirect cost rate with the federal government. These approved rates are then applied to the appropriate cost base of eligible projects and billed to the Federal Highway Administration and other parties. The department received approximately \$42,000 of indirect cost reimbursement during fiscal year 1984-85.

We reviewed the federal guidelines for computing indirect cost rates and applied these criteria to the rates computed by the department. We determined the department has included cost categories which are generally unallowable under applicable federal guidelines. For example, the department included the cost of storage space (\$7,896 for the fiscal year 1983-84 and \$8,728 for fiscal year 1984-85) for another agency's equipment which is stored in a department facility.

A department official indicated that some of the activity accounted for in the categories are eligible for indirect cost recovery but that it is not cost beneficial to separate eligible and ineligible costs. Thus, all costs in the categories are included.

The generally unallowable cost categories and amounts included in the rate base are detailed below:

SCHEDULE OF GENERALLY UNALLOWABLE INDIRECT COST CATEGORIES

<u>Category</u>	<u>Fiscal Year 1984-85 Amount</u>	<u>Fiscal Year 1983-84 Amount</u>
Space provided to other agencies	\$ 8,728	\$ 7,896
Department Director's Office	179,645	184,613
Legal Division	64,440	63,405
Highway Commission Secretary	-0-	25,693
Centralized Services	360,887	323,555
General Administration	562,807	578,942
Total	<u>\$1,176,507</u>	<u>\$1,184,104</u>

Source: Prepared by the Office of the Legislative Auditor

Because the department's system does not separate the eligible and ineligible costs, we were not able to determine the total amount of indirect costs improperly charged to the federal government. All costs included in the rate base should be in accordance with federal guidelines.

In addition, the department made errors in computing the fiscal year 1984-85 indirect cost rate base. Errors included:

1. Not reducing the amount of cost (\$11,471) relating to the portion of the department's building which the Public Service Commission now occupies, and
2. Using an incorrect amount for the statewide cost allocation plan (SWCAP). The amount used was \$279,930 less than that detailed in SWCAP.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT INCLUDE COSTS IN THE INDIRECT COST RATE BASE IN ACCORDANCE WITH FEDERAL GUIDELINES.

DATA PROCESSING

The Department of Highways collects and processes a large amount of data using computers. The data files, as well as the application programs themselves, must be protected from accidental or intentional destruction or alteration. This is necessary to help ensure the safeguarding of assets, as well as the accuracy and reliability of management information and financial records.

In our examination, we identified several areas where controls over access to the computer system, data files, or computer programs could be improved. We estimate any additional cost to the department for implementation of related recommendations will be negligible.

Access Rules

The state has a security software package (ACF2) which the department can use to control access to its data files. Authorized users of the state's computer system are identified using ACF2. The departments can write rules defining which users have access to program libraries and data files "owned" by the departments. Using ACF2 the level of access can also be limited. For example, users may be given access to read a file or execute a program, but not access to write or modify a file or program.

The department's access rules are structured so that nearly all users within the department have unlimited access to department program libraries and data files. This increases the possibility that unauthorized modifications might be made to those programs or files. A department official indicated the problem arose due to a failure to consider internal security when the ACF2 rules were written. In order to reduce the likelihood of errors or irregularities, access should be restricted to only those employees needing it to perform their duties.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT REVISE ITS ACF2 RULES TO LIMIT ACCESS TO PROGRAMS AND DATA FILES TO ONLY THOSE EMPLOYEES NEEDING IT TO PERFORM THEIR DUTIES.

Passwords

We tested a sample of Department of Highways' employee logon identification numbers for the use of easy-to-guess passwords. In three attempts or less, we successfully guessed passwords for over one-half of the identification numbers tested. Using these logon identification numbers, we could have accessed several critical department data files.

To ensure trivial, easy-to-guess passwords are not used by Department of Highways' employees, the department should establish a policy discouraging the use of easily-guessed passwords. To ensure the policy is implemented the department should review for the use of trivial passwords.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT ESTABLISH A POLICY DISCOURAGING THE USE OF EASILY-GUESSED PASSWORDS.

Cancellation of Access Privileges

The department's computer operations section is responsible for the authorization and cancellation of computer system access privileges for all department employees using ACF2. However, no procedures exist to ensure access privileges are cancelled upon employee termination. We noted an instance where an employee terminated on March 30, 1984, but still had access privileges to the department's computer system at January 1, 1985.

An operations section official indicated that they do not receive notice from the personnel division when an employee terminates and therefore have no way of knowing if access privileges should be cancelled. Allowing terminated employees to retain access privileges to the department's computer system provides the opportunity for the destruction of system information by former employees. Access privileges should be cancelled immediately upon termination.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT ENSURE ACCESS PRIVILEGES ARE CANCELLED FOR TERMINATED EMPLOYEES.

Systems Development

Systems development controls relate to the review, testing, approval, and documentation of new systems, and the maintenance of existing systems. We noted the department has no finalized written systems development or testing standards. Although we made no formal recommendation, this same problem was discussed with department officials during our two prior audits.

The objective of system development controls is to ensure the system designed meets users' needs. Documentation of and adherence to development and testing standards would ensure that user needs have been met prior to implementation of the new system or making changes to existing systems.

The department has begun drafting development standards; however, they have not yet been finalized.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT DEVELOP WRITTEN SYSTEMS DEVELOPMENT AND TESTING STANDARDS.

INTERNAL CONTROL

We have examined the financial schedules of the Department of Highways for the two fiscal years ended June 30, 1985. We issued our opinion dated September 27, 1985, on these schedules. As part of our examination, we made a study and evaluation of the department's system of control as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories: 1) revenue; 2) expenditures; 3) inventories; 4) payroll; 5) property, plant, and equipment; and 6) data processing.

Our study and evaluation included the control categories noted above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the department is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the department. However, our study

disclosed conditions that could result in financial schedule errors that could be difficult to detect. These conditions relating to inventories and data processing are discussed on pages 3 and 11.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial records. This report on internal control does not affect our opinion on the financial schedules.

The preceding five paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

The previous audit for fiscal year 1982-83 contained nine recommendations. The department has implemented six of those recommendations, partially implemented two, and has not implemented one. The recommendation not implemented concerns following department inventory count procedures (page 5).

AUDITOR'S REPORT AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented. We issued a qualified opinion on the Schedule of Changes in Fund Balance for the two fiscal years ending June 30, 1985, and the Schedule of Revenue and Transfers In for the fiscal year ending June 30, 1985. These schedules are misstated due to problems in the accounting for merchandise (gravel) inventory and the recording of prior year revenue items. The reader should use caution when using financial information in these schedules.

We issued an unqualified opinion on all other financial schedules prepared from the Statewide Budgeting and Accounting System (SBAS), as noted on page 18 of the report. An unqualified opinion means that the schedules are fairly stated in all material respects and that the user of this SBAS information can rely on the information presented.

The financial schedules are compiled from SBAS without adjustments for errors noted during the audit. This is done to convey the degree of reliance to users of SBAS. In prior audits the financial schedules were presented after adjustments and the department was allowed to correct the errors noted prior to issuance of the auditors opinion.

Office of the Legislative Auditor

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JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the various funds of the Montana Department of Highways for each of the two fiscal years ending June 30, 1984 and 1985 as shown on pages 20 through 32. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

During the 1984-85 fiscal year-end period the department used an incorrect amount when updating SBAS for actual quantities of gravel stockpiles on hand at June 30, 1985. As a result, merchandise inventory and fund balance (reserve for merchandise inventory) are understated by \$5,949,495 in the Special Revenue Fund at June 30, 1985.

The department did not use the prior year revenue account in accordance with state policy as transactions relating to investment accruals and contributed capital were improperly recorded. As a result, the following over(under)statements were noted during fiscal year 1984-85.

<u>Account</u>	<u>Special Revenue Fund</u>	<u>Internal Service Fund</u>	<u>Expendable Trust Fund</u>
Revenue	\$2,614,846	\$(1,621,211)	\$(7,831)
Prior Year Revenue	(2,614,846)	1,621,211	7,831

In our opinion, except for the effect of the matters discussed in paragraphs three and four, the schedules listed below present fairly the results of operations and the changes in fund balance of the Department of Highways for the two years ending June 30, 1985, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

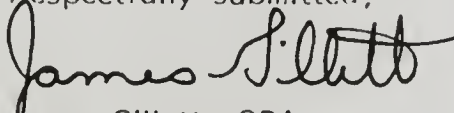
<u>Schedule Name</u>	<u>Fund</u>	<u>Fiscal Year</u>
Schedule of Changes in Fund Balance	Special Revenue Internal Service	For the Two Years Ending June 30, 1985
Schedule of Revenue and Transfers In - Estimate and Actual	Special Revenue Internal Service Expendable Trust	1985 1985 1985

In our opinion, the financial schedules listed below present fairly the results of operations and changes in fund balance of such funds of the Department of Highways for each of the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

<u>Schedule Name</u>	<u>Fund</u>	<u>Fiscal Year</u>
Schedule of Changes in Fund Balance	Debt Service Expendable Trust	For the Two Years Ending June 30, 1985
Schedule of Revenue and Transfers In - Estimate and Actual	Special Revenue	1984
	Debt Service	1984, 1985
	Internal Service	1984
	Expendable Trust	1984
Schedule of Program Expenditures and Transfers Out by Fund - Budget and Actual	Special Revenue	1984, 1985
	Debt Service	1984, 1985
	Internal Service	1984, 1985
	Expendable Trust	1984, 1985
Schedule of Program Expenditures and Transfers Out by Object		1984, 1985
Schedule of Additions and Deductions to Agency Fund Assets	Agency	1984, 1985

Our examination was made for the purpose of forming an opinion on the financial schedules referred to in paragraph one. The accompanying Schedule of Federal Grant Revenue is presented for additional analysis and disclosure purposes. The schedule has been subjected to the tests and other auditing procedures applied in the examination of the financial schedules above and, in our opinion, except for the matters discussed in paragraphs three and four, is fairly stated in all material respects in relation to the financial schedules referred to in paragraph one.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

September 27, 1985

	<u>Land</u>	<u>Debt Service Fund</u>	<u>Internal Service Fund</u>	<u>Expendable Trust Fund</u>
FUND BALANCE July 1, 1983	\$ —			
ADDITIONS:				
Fiscal Year 1984	537		12,672,759	
Budgeted Revenue and Transfers In	\$ —	<u>7,619,292</u>	<u>295,101</u>	<u>171,487</u>
Nonbudgeted Revenue and Transfers In	—			
Total Fiscal Year 1984 Revenue and Transfers In	537	7,619,292	12,967,860	171,487
Prior Year Revenue Adjustment Cash Transfer In	118		(48,626)	
Residual Equity Transfer In Direct Entry to Fund Balance	—	<u>394,566</u>	<u>(471,797)</u>	
Total Fiscal Year 1984 Additions	—55	<u>8,013,858</u>	<u>12,447,437</u>	<u>171,487</u>
Fiscal Year 1985				
Budgeted Revenue and Transfers In	97		13,054,044	
Nonbudgeted Revenue and Transfers In	—	<u>7,308,908</u>	<u>1,009,646^F</u>	<u>111,038</u>
Total Revenues and Transfers In				
Cash Transfers In	97	7,308,908	14,063,690	111,038
Prior Year Revenue Adjustments	—84			
Total Fiscal Year 1985 Additions	—71		100,804	
Total Additions	—		(273,096)	
^A Special Revenue Fund - \$39,097,907	76		105,778	
(683,062)				
\$38,414,845	28	<u>7,308,908</u>	<u>13,997,176</u>	<u>111,038</u>
^B Debt Service Fund - includes \$5,383	83	<u>15,322,766</u>	<u>26,444,613</u>	<u>282,525</u>
^{C & D} Internal Service Fund - Movement ^H 1983-84	33 ^H	<u>\$14,643,269</u>	<u>\$26,680,416</u>	<u>\$ 876,752</u>

^EIncludes \$150,003 attributable to

^FIncludes \$57,711 relating to a loss

^GIncludes \$203,359 attributable to

^HIncludes reserve for inventory of

side Budgeting and Accounting System. Additions to the financial schedules on pages 28

DEPARTMENT OF HIGHWAYS
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1985

	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Expendable Trust Fund
FUND BALANCE July 1, 1983	<u>\$106,802,983</u>	<u>\$12,759,523</u>	<u>\$19,705,318</u>	<u>\$ -0-</u>
ADDITIONS:				
Fiscal Year 1984				
Budgeted Revenue and Transfers In	\$196,279,546		\$13,391,293 ^G	
Nonbudgeted Revenue and Transfers In	(683,064)	\$10,240,575	1,333,573 ^C	\$ 79,695
Total Fiscal Year 1984 Revenue and Transfers In	195,596,482 ^A	10,240,575 ^B	14,724,866	79,695
Prior Year Revenue Adjustment	2,051,172		(261,502)	
Cash Transfer In	70,678,878	1,161,494		
Residual Equity Transfer In	161,090			
Direct Entry to Fund Balance	1,992,520		500,000	998,179
Total Fiscal Year 1984 Additions	<u>270,480,142</u>	<u>11,402,069</u>	<u>14,963,364</u>	<u>1,077,874</u>
Fiscal Year 1985				
Budgeted Revenue and Transfers In	187,008,562		14,756,875 ^E	
Nonbudgeted Revenue and Transfers In	4,990	5,533,669	2,073,725 ^D	89,248
Total Revenues and Transfers In	187,013,552	5,533,669	16,830,600	89,248
Cash Transfers In	72,547,153	270,774		
Prior Year Revenue Adjustments	(2,431,344)		1,625,747	(7,845)
Total Fiscal Year 1985 Additions	<u>257,129,361</u>	<u>5,804,443</u>	<u>18,456,347</u>	<u>81,403</u>
Total Additions	<u>527,609,503</u>	<u>17,206,512</u>	<u>33,419,711</u>	<u>1,159,277</u>

^ASpecial Revenue Fund - \$39,097,907 - Bond Proceeds
(683,064) - Decrease in Inventory
\$38,414,843 - Actual Revenue and Transfers In -
(Income Collections and Transfers Class)

^BDebt Service Fund - includes \$5,318,542 of Bond Proceeds

^{C & D}Internal Service Fund - Movements of Fixed Assets - \$1,333,573 for fiscal year 1983-84 and \$2,073,725 for fiscal year 1984-85

^EIncludes \$150,003 attributable to a gain on the sale of fixed assets for fiscal year 1984-85.

^FIncludes \$57,711 relating to a loss on the sale of fixed assets.

^GIncludes \$203,359 attributable to a gain on the sale of fixed assets for fiscal year 1983-84.

^HIncludes reserve for inventory of \$9,965,631.

	Special Revenue Fund	Debt Service Fund	Internal Service Fund	Expendable Trust Fund
REDUCTIONS:				
Fiscal Year 1984				
Budgeted Expenditures and Transfers Out	225,499,537		12,672,759	
Nonbudgeted Expenditures and Transfers Out		7,619,292	295,101	171,487
Total Fiscal Year 1984 Expenditures and Transfers Out	225,499,537	7,619,292	12,967,860	171,487
Prior Year Expenditure Adjustment	2,370,818		(48,626)	
Nonbudgeted Prior Year Expenditure Adjustment			(471,797)	
Direct Entry to Fund Balance		394,566		
Total Fiscal Year 1984 Reductions	<u>227,870,355</u>	<u>8,013,858</u>	<u>12,447,437</u>	<u>171,487</u>
Fiscal Year 1985				
Budgeted Expenditures and Transfers Out	269,139,097		13,054,044	
Nonbudgeted Expenditures and Transfers Out		7,308,908	1,009,646 ^F	111,038
Total Fiscal Year 1985 Expenditures and Transfers Out	269,139,097	7,308,908	14,063,690	111,038
Prior Year Expenditures	4,184			
Prior Year Expenditure Adjustments	2,034,771		100,804	
Nonbudgeted Prior Year Expenditure Adjustments			(273,096)	
Direct Entries to Fund Balance	4,992,476		105,778	
Total Fiscal Year 1985 Reductions	<u>276,170,528</u>	<u>7,308,908</u>	<u>13,997,176</u>	<u>111,038</u>
Total Reductions	<u>504,040,883</u>	<u>15,322,766</u>	<u>26,444,613</u>	<u>282,525</u>
FUND BALANCE June 30, 1985	<u>\$130,371,603^H</u>	<u>\$14,643,269</u>	<u>\$26,680,416</u>	<u>\$ 876,752</u>

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

	<u>Licenses & Fees</u>	<u>Income Collections, & Transfers</u>	<u>Federal Assistance</u>	<u>Total</u>
Special Revenue Fund				
Estimated Revenue	\$ 4,940		\$130,282,285	\$186,962,619
Actual Revenue	<u>14,329</u>		<u>128,348,578</u>	<u>187,013,552</u>
Collections Over (Under) Estimate	<u>\$ 9,381</u>		<u>\$ (1,933,707)</u>	<u>\$ 50,933</u>
Debt Service Fund				
Estimated Revenue		\$ -0-		\$ -0-
Actual Revenue		<u>5,485,308</u>		<u>5,533,669</u>
Collections Over (Under) Estimate		<u>\$5,485,308</u>		<u>\$ 5,533,669</u>
Internal Service Fund				
Estimated Revenue		\$ -0-		\$ 16,158,589
Actual Revenue		<u>2,073,003^B</u>		<u>16,830,600^A</u>
Collections Over (Under) Estimate		<u>\$2,073,003</u>		<u>\$ 672,011</u>
Expendable Trust Fund				
Estimated Revenue			\$ -0-	
Actual Revenue			<u>89,248</u>	
Collections Over (Under) Estimate			<u>\$ 89,248</u>	

^AIncludes \$150,003 attributable

^BRepresents revenue recognized

This schedule is compiled from financial schedules on pages 28 through

DEPARTMENT OF HIGHWAYS
SCHEDULE OF REVENUE AND TRANSFERS IN
ESTIMATE AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Licenses & Permits	Taxes	Service Fees	Investment Earnings	Reimbursement	Sale of Documents, Merchandise, & Property	Miscellaneous	Rent, Leases, & Royalties	Income Collections, & Transfers	Federal Assistance	Total
Special Revenue Fund											
Estimated Revenue	\$ 4,944,626	\$18,212,654	\$ 57,776	\$ 6,729,326	\$14,923,283	\$ 207,393	\$ 998,156	\$10,607,120		\$130,282,285	\$186,962,619
Actual Revenue	<u>14,325,119</u>	<u>9,540,260</u>	<u>41,699</u>	<u>10,530,359</u>	<u>14,935,608</u>	<u>82,101</u>	<u>191,519</u>	<u>9,018,309</u>		<u>128,348,578</u>	<u>187,013,552</u>
Collections Over (Under) Estimate	<u>\$ 9,380,493</u>	<u>\$(8,672,394)</u>	<u>\$(16,077)</u>	<u>\$ 3,801,033</u>	<u>\$ 12,325</u>	<u>\$(125,292)</u>	<u>\$(806,637)</u>	<u>\$(1,588,811)</u>		<u>\$ (1,933,707)</u>	<u>\$ 50,933</u>
Debt Service Fund											
Estimated Revenue				\$ -0-					\$ -0-		\$ -0-
Actual Revenue				<u>48,361</u>					<u>5,485,308</u>		<u>5,533,669</u>
Collections Over (Under) Estimate				<u>\$ 48,361</u>					<u>\$5,485,308</u>		<u>\$ 5,533,669</u>
Internal Service Fund											
Estimated Revenue			\$ 3,000		\$15,896,277	\$ 230,775	\$ 28,537		\$ -0-		\$ 16,158,589
Actual Revenue			<u>(21)</u>		<u>14,598,856</u>	<u>150,725</u>	<u>8,037</u>		<u>2,073,003^B</u>		<u>16,830,600^A</u>
Collections Over (Under) Estimate			<u>\$ (3,021)</u>		<u>\$(1,297,421)</u>	<u>\$ (80,050)</u>	<u>\$ (20,500)</u>		<u>\$2,073,003</u>		<u>\$ 672,011</u>
Expendable Trust Fund											
Estimated Revenue				\$ -0-							\$ -0-
Actual Revenue				<u>89,248</u>							<u>89,248</u>
Collections Over (Under) Estimate				<u>\$ 89,248</u>							<u>\$ 89,248</u>

^AIncludes \$150,003 attributable to a gain on the sale of fixed assets.

^BRepresents revenue recognized due to the movement of fixed assets from the Special Revenue Fund to the Internal Service Fund.

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

	<u>Licenses & Permits</u>	<u>Total</u>
Special Revenue Fund		
Estimated Revenues		
and Transfers In	\$4,944,626	\$15,830,176
Actual Revenue		
and Transfers In	<u>4,192,862</u>	<u>15,596,482</u>
Collections Over		
(Under) Estimate	<u>\$ (751,764)</u>	<u>\$ (233,694)</u>
Debt Service Fund		
Estimated Revenues		
and Transfers In		-0-
Actual Revenues		
and Transfers In		<u>0,240,575</u>
Collections Over		
(Under) Estimate		<u>0,240,575</u>
Internal Service Fund		
Estimated Revenues		
and Transfers In		3,401,244
Actual Revenues		
and Transfers In		<u>4,724,866^A</u>
Collections Over		
(Under) Estimate		<u>1,323,622</u>
Expendable Trust Fund		
Estimated Revenues		
and Transfers In		-0-
Actual Revenues		
and Transfers In		<u>79,695</u>
Collections Over		
(Under) Estimate		<u>79,695</u>

^AIncludes \$203,359 attributable to

^BRepresents revenue recognized due

This schedule is compiled from the schedules on pages 28 through 32.

DEPARTMENT OF HIGHWAYS
SCHEDULE OF REVENUE AND TRANSFERS IN
ESTIMATE AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	Licenses & Permits	Taxes	Service Fees	Investment Earnings	Reim- bursement	Sale of Documents, Merchandise, & Property	Misc.	Rent	Income, Collections, & Transfers	Federal Assistance	Total
Special Revenue Fund											
Estimated Revenues and Transfers In	\$4,944,626	\$17,983,374	\$ 71,200	\$ 5,656,900	\$14,049,736	\$ 167,557	\$ 890,415	\$79,335	\$38,546,505	\$113,440,528	\$195,830,176
Actual Revenue and Transfers In	<u>4,192,862</u>	<u>18,431,993</u>	<u>53,891</u>	<u>3,593,555</u>	<u>12,967,791</u>	<u>209,114</u>	<u>683,852</u>	<u>87,016</u>	<u>38,414,843</u>	<u>116,961,565</u>	<u>195,596,482</u>
Collections Over (Under) Estimate	<u>\$ (751,764)</u>	<u>\$ 448,619</u>	<u>\$ (17,309)</u>	<u>\$ (2,063,345)</u>	<u>\$ (1,081,945)</u>	<u>\$ 41,557</u>	<u>\$ (206,563)</u>	<u>\$ 7,681</u>	<u>\$ (131,662)</u>	<u>\$ 3,521,037</u>	<u>\$ (233,694)</u>
Debt Service Fund											
Estimated Revenues and Transfers In			\$ -0-						\$ -0-		\$ -0-
Actual Revenues and Transfers In			<u>10,365</u>						<u>10,230,210</u>		<u>10,240,575</u>
Collections Over (Under) Estimate			<u>\$ 10,365</u>						<u>\$10,230,210</u>		<u>\$ 10,240,575</u>
Internal Service Fund											
Estimated Revenues and Transfers In			\$ 8,305		\$12,791,105	\$ 450,000	\$ 151,834		\$ -0-		\$ 13,401,244
Actual Revenues and Transfers In			<u>-0-</u>		<u>13,134,299</u>	<u>203,359</u>	<u>53,635</u>		<u>1,333,573^B</u>		<u>14,724,866^A</u>
Collections Over (Under) Estimate			<u>\$ (8,305)</u>		<u>\$ 343,194</u>	<u>\$ (246,641)</u>	<u>\$ (98,199)</u>		<u>\$ 1,333,573</u>		<u>\$ 1,323,622</u>
Expendable Trust Fund											
Estimated Revenues and Transfers In			\$ -0-								\$ -0-
Actual Revenues and Transfers In			<u>79,695</u>								<u>79,695</u>
Collections Over (Under) Estimate			<u>\$ 79,695</u>								<u>\$ 79,695</u>

^AIncludes \$203,359 attributable to a gain on the sale of fixed assets.

^BRepresents revenue recognized due to the movement of fixed assets from the Special Revenue Fund to the Internal Service Fund.

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

General
Operations totals

SPECIAL REVENUE FUND

Budget	\$23,664,775	329,720
Actual:		
Personal Services	5,554,197	782,380
Operating Expenses	3,143,679	974,456
Equipment	584,673	375,478
Local Assistance	12,503	12,503
Grants	14,294,543	294,543
Debt Service	5,307	5,307
Capital Outlay		209,122
Transfers		485,308
Total Actual	23,594,902	139,097
Unspent Appropriation Authority	\$ 69,873	190,623

DEBT SERVICE FUND

Budget	-0-	A
Actual:		
Debt Service	308,908	
Total Actual	308,908	
Unspent Appropriation Authority	308,908)	

EXPENDABLE TRUST FUND

Budget	-0-	A
Actual:		
Operating Expenses	111,038	
Total Actual	111,038	
Unspent Appropriation Authority	111,038)	

INTERNAL SERVICE FUND

Budget	166,209
Actual:	
Personal Services	092,784
Operating Expenses	041,604
Equipment	929,302
Total Actual	063,690 ^B
Unspent Appropriation Authority	102,519

PROGRAM TOTAL

Budget	\$23,664,775	495,929
Actual:		
Personal Services	5,554,197	875,164
Operating Expenses	3,143,679	127,098
Equipment	584,673	304,780
Local Assistance	12,503	12,503
Grants	14,294,543	294,543
Debt Service	5,307	314,215
Capital Outlay		209,122
Transfers		485,308
Total Actual	23,594,902	622,733
Unspent Appropriation Authority	\$ 69,873	873,196

^A An appropriation is not required in the

^B Includes \$57,711 relating to a loss on

^C Internal Service Fund expenditures including sale of fixed assets. These amounts at the department did not exceed its appropriation Fund.

This schedule is compiled from the State schedules on pages 28 through 32.

DEPARTMENT OF HIGHWAYS
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY FUND
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 1985

	General Operations	Construction	Maintenance	Bonds	Preconstruction	Highway Service Revolving	State Motor Pool	Equipment	Capital Outlay	Stores Inventory	Totals
SPECIAL REVENUE FUND											
Budget	\$23,664,775	\$182,690,531	\$42,394,702		\$13,334,241			\$ 2,568,000	\$5,485,308	\$16,192,163	\$286,329,720
Actual:											
Personal Services	5,554,197	15,646,043	17,355,168		6,158,100					1,068,872	45,782,380
Operating Expenses	3,143,679	150,982,835	24,584,645		2,196,223					15,067,074	195,974,456
Equipment	584,673	997,191	192,275		77,414			2,523,925			4,375,478
Local Assistance	12,503										12,503
Grants	14,294,543										14,294,543
Debt Service	5,307										5,307
Capital Outlay			135,062		3,074,060						3,209,122
Transfers									5,485,308		5,485,308
Total Actual	23,594,902	167,626,069	42,267,150		11,505,797			2,523,925	5,485,308	16,135,946	269,139,097
Unspent Appropriation Authority	\$ 69,873	\$ 15,064,462	\$ 127,552		\$ 1,828,444			\$ 44,075	\$ -0-	\$ 56,217	\$ 17,190,623
DEBT SERVICE FUND											
Budget				\$ -0- ^A					\$ -0- ^A		\$ -0- ^A
Actual:											
Debt Service				6,721,663					587,245		7,308,908
Total Actual				6,721,663					587,245		7,308,908
Unspent Appropriation Authority				\$(6,721,663)					\$(587,245)		\$(7,308,908)
EXPENDABLE TRUST FUND											
Budget	\$ -0- ^A										\$ -0- ^A
Actual:											
Operating Expenses		111,038									111,038
Total Actual		111,038									111,038
Unspent Appropriation Authority	\$ (111,038)										\$(111,038)
INTERNAL SERVICE FUND											
Budget						\$3,047,352	\$613,361	\$10,505,496			14,166,209
Actual:											
Personal Services						1,935,878	134,817	3,022,089			5,092,784
Operating Expenses						1,116,542	497,905	6,427,157			8,041,604
Equipment						40,229	5,579	883,494			929,302
Total Actual						3,092,649	638,301	10,332,740			14,063,690 ^B
Unspent Appropriation Authority						\$(45,297) ^C	\$(24,940)	\$ 172,756			\$ 102,519
PROGRAM TOTAL											
Budget	\$23,664,775	\$182,690,531	\$42,394,702	\$ -0-	\$13,334,241	\$3,047,352	\$613,361	\$13,073,496	\$5,485,308	\$16,192,163	\$300,495,929
Actual:											
Personal Services	5,554,197	15,646,043	17,355,168		6,158,100	1,935,878	134,817	3,022,089		1,068,872	50,875,164
Operating Expenses	3,143,679	151,093,873	24,584,645		2,196,223	1,116,542	497,905	6,427,157		15,067,074	204,127,098
Equipment	584,673	997,191	192,275		77,414	40,229	5,579	3,407,419			5,304,780
Local Assistance	12,503										12,503
Grants	14,294,543										14,294,543
Debt Service	5,307			6,721,663					587,245		7,314,215
Capital Outlay			135,062		3,074,060						3,209,122
Transfers									5,485,308		5,485,308
Total Actual	23,594,902	167,737,107	42,267,150	6,721,663	11,505,797	3,092,649	638,301	12,856,665	6,072,553	16,135,946	290,622,733
Unspent Appropriation Authority	\$ 69,873	\$ 14,953,424	\$ 127,552	\$(6,721,663)	\$ 1,828,444	\$(45,297)	\$(24,940)	\$ 216,831	\$(587,245)	\$ 56,217	\$ 9,873,196

^AAn appropriation is not required in the Debt Service Fund or the Expendable Trust Fund.

^BIncludes \$57,711 relating to a loss on the sale of fixed assets.

^CInternal Service Fund expenditures include \$1,009,646 of nonbudgeted expenditures and transfers out relating to depreciation and a loss on the sale of fixed assets. These amounts are presented to reflect total expenditures but do not actually reduce appropriation authority. Therefore, the department did not exceed its appropriation authority for the Highway Service Revolving and State Motor Pool programs in the Internal Service Fund.

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

	General Operations	ls
<u>SPECIAL REVENUE FUND</u>		
Budget	\$23,497,711	,577
Actual:		
Personal Services	5,202,616	,954
Operating Expenses	2,611,306	,230
Equipment	522,910	,798
Local Assistance	68,750	,750
Grants	14,199,316	,316
Debt Service	9,289	,282
Capital Outlay		,331
Transfers		,876
Total Actual	<u>22,614,187</u>	<u>,537</u>
Unspent Appropriation		
Authority	<u>\$ 883,524</u>	<u>,040</u>
<u>DEBT SERVICE FUND</u>		
Budget		0- A
Actual:		
Debt Service		,292
Total Actual		<u>,292</u>
Unspent Appropriation		
Authority		<u>,292)</u>
<u>EXPENDABLE TRUST FUND</u>		
Budget		0- A
Actual:		
Operating Expenses		,487
Total Actual		<u>,487</u>
Unspent Appropriation		
Authority		<u>,487)</u>
<u>INTERNAL SERVICE FUND</u>		
Budget		,008
Actual:		
Personal Services		,331
Operating Expenses		,296
Equipment		,233
Total Actual		<u>,860</u>
Unspent Appropriation		
Authority		<u>,148</u>
<u>PROGRAM TOTAL</u>		
Budget	\$23,497,711	\$,585
Actual:		
Personal Services	5,202,616	,285
Operating Expenses	2,611,306	,013
Equipment	522,910	,031
Local Assistance	68,750	,750
Grants	14,199,316	,316
Debt Service	9,289	,574
Capital Outlay		,331
Transfers		,876
Total Actual	<u>22,614,187</u>	<u>,176</u>
Unspent Appropriation		
Authority	<u>\$ 883,524</u>	<u>\$,409</u>

^A An appropriation is not required in the De

^R Internal Service Fund expenditures include presented to reflect total expenditures by appropriation authority for the Highway Se

This schedule is compiled from the Statewide schedules on pages 28 through 32.

DEPARTMENT OF HIGHWAYS
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY FUND
BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 1984

	General Operations	Construction	Maintenance	Bonds	Preconstruction	Highway Service Revolving	State Motor Pool	Equipment	Capital Outlay	Stores Inventory	Totals
<u>SPECIAL REVENUE FUND</u>											
Budget	\$23,497,711	\$161,121,655	\$39,580,603		\$12,380,551			\$ 3,100,000	\$5,886,443	\$14,299,614	\$259,866,577
Actual:											
Personal Services	5,202,616	13,652,885	16,595,014		5,926,483					1,013,956	42,390,954
Operating Expenses	2,611,306	117,869,229	21,440,427		1,425,633					12,289,635	155,636,230
Equipment	522,910	125,738	172,146		50,410			3,002,594			3,873,798
Local Assistance	68,750										68,750
Grants	14,199,316										14,199,316
Debt Service	9,289	464,993									474,282
Capital Outlay			11,366		3,352,965						3,364,331
Transfers									5,491,876		5,491,876
Total Actual	22,614,187	132,112,845	38,218,953		10,755,491			3,002,594	5,491,876	13,303,591	225,499,537
Unspent Appropriation Authority	\$ 883,524	\$ 29,008,810	\$ 1,361,650		\$ 1,625,060			\$ 97,406	\$ 394,567	\$ 996,023	\$ 34,367,040
<u>DEBT SERVICE FUND</u>											
Budget				\$ -0- ^A					\$ -0- ^A		\$ -0- ^A
Actual:											
Debt Service				\$ 7,039,085					\$ 580,207		\$ 7,619,292
Total Actual				7,039,085					580,207		7,619,292
Unspent Appropriation Authority				\$ (7,039,085)					\$ (580,207)		\$ (7,619,292)
<u>EXPENDABLE TRUST FUND</u>											
Budget		\$ -0- ^A									\$ -0- ^A
Actual:											
Operating Expenses		\$ 171,487									\$ 171,487
Total Actual		171,487									171,487
Unspent Appropriation Authority		\$ (171,487)									\$ (171,487)
<u>INTERNAL SERVICE FUND</u>											
Budget						\$2,814,801	\$719,071	\$10,018,136			\$ 13,552,008
Actual:											
Personal Services						1,785,269	146,130	2,969,932			4,901,331
Operating Expenses						1,068,836	476,853	6,261,607			7,807,296
Equipment						5,782	(17,218)	270,669			259,233
Total Actual						2,859,887	605,765	9,502,208			12,967,860
Unspent Appropriation Authority						\$ (45,086) ^B	\$113,306	\$ 515,928			\$ 584,148
<u>PROGRAM TOTAL</u>											
Budget	\$23,497,711	\$161,121,655	\$39,580,603		\$12,380,551	\$2,814,801	\$719,071	\$13,118,136	\$5,886,443	\$14,299,614	\$273,418,585
Actual:											
Personal Services	5,202,616	13,652,885	16,595,014		5,926,483	1,785,269	146,130	2,969,932		1,013,956	47,292,285
Operating Expenses	2,611,306	118,040,716	21,440,427		1,425,633	1,068,836	476,853	6,261,607		12,289,635	163,615,013
Equipment	522,910	125,738	172,146		50,410	5,782	(17,218)	3,273,263			4,133,031
Local Assistance	68,750										68,750
Grants	14,199,316										14,199,316
Debt Service	9,289	464,993		\$ 7,039,085					580,207		8,093,574
Capital Outlay			11,366		3,352,965						3,364,331
Transfers									5,491,876		5,491,876
Total Actual	22,614,187	132,284,332	38,218,953	7,039,085	10,755,491	2,859,887	605,765	12,504,802	6,072,083	13,303,591	246,258,176
Unspent Appropriation Authority	\$ 883,524	\$ 28,837,323	\$ 1,361,650	\$ (7,039,085)	\$ 1,625,060	\$ (45,086)	\$113,306	\$ 613,334	\$ (185,640)	\$ 996,023	\$ 27,160,409

^A An appropriation is not required in the Debt Service Fund or the Expendable Trust Fund.

^B Internal Service Fund expenditures include \$295,101 of nonbudgeted expenditures and transfers out relating to depreciation. These amounts are presented to reflect total expenditures but do not actually reduce appropriation authority. Therefore, the department did not exceed its appropriation authority for the Highway Service Revolving program in the Internal Service Fund.

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

	<u>Equipment</u>	<u>Capital Outlay</u>	<u>Stores Inventory</u>	<u>Total</u>
PERSONAL SERVICES				
Salaries	476,959		\$ 873,538	\$ 42,066,792
Other Compensation	204			19,341
Employee Benefits	544,926		195,334	8,789,031
Total Personal Services	<u>1,022,089</u>		<u>1,068,872</u>	<u>50,875,164</u>
OPERATING EXPENSES				
Contracted Services	149,745		18,886	153,606,305
Supplies and Materials	795,070		3,211,209	7,750,028
Communications	46,005		4,090	677,772
Travel	15,283		25,857	2,281,725
Rent	1,937		978,555	10,313,407
Utilities	139,828		186	1,499,665
Repair and Maintenance	673,939		10,828,238	25,888,058
Other Expenses	605,350		53	2,110,138 ^A
Total Operating Expenses	<u>4,227,157</u>		<u>15,067,074</u>	<u>204,127,098</u>
EQUIPMENT				
Total Equipment	<u>407,419</u>			<u>5,304,780</u>
LOCAL ASSISTANCE				
From State Sources				12,503
Total Local Assistance				<u>12,503</u>
GRANTS				
From State Sources				14,294,543
Total Local Assistance				<u>14,294,543</u>
DEBT SERVICE				
Bonds		\$ 587,245		7,314,215
Total Debt Service		<u>587,245</u>		<u>7,314,215</u>
CAPITAL OUTLAY				
Land				3,074,060
Other Improvements				135,062
Total Capital Outlay				<u>3,209,122</u>
TRANSFERS				
Accounting Entity Transfers		5,485,308		5,485,308
Total Transfers		<u>5,485,308</u>		<u>5,485,308</u>
TOTAL PROGRAM EXPENDITURES	<u>856,665</u>	<u>\$6,072,553</u>	<u>\$16,135,946</u>	<u>\$290,622,733</u>

^AIncludes \$57,711 relating to

This schedule is compiled from financial schedules on pages 28 through

DEPARTMENT OF HIGHWAYS
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1985

	General Operations	Construction	Maintenance	Bonds	Preconstruction	Highway Service Revolving	State Motor Pool	Equipment	Capital Outlay	Stores Inventory	Total
PERSONAL SERVICES											
Salaries	\$ 4,602,773	\$ 13,025,900	\$14,200,309		\$ 5,163,927	\$1,614,485	\$108,901	\$ 2,476,959		\$ 873,538	\$ 42,066,792
Other Compensation	8,318	4,082	5,571		1,166			204			19,341
Employee Benefits	943,106	2,616,061	3,149,288		993,007	321,393	25,916	544,926		195,334	8,789,031
Total Personal Services	<u>5,554,197</u>	<u>15,646,043</u>	<u>17,355,168</u>		<u>6,158,100</u>	<u>1,935,878</u>	<u>134,817</u>	<u>3,022,089</u>		<u>1,068,872</u>	<u>50,875,164</u>
OPERATING EXPENSES											
Contracted Services	1,929,955	147,985,149	1,053,083		1,726,626	704,794	38,067	149,745		18,886	153,606,305
Supplies and Materials	216,295	288,374	813,724		62,997	210,213	152,146	2,795,070		3,211,209	7,750,028
Communications	224,980	128,640	160,738		87,001	25,363	955	46,005		4,090	677,772
Travel	378,683	1,443,194	148,340		248,687	21,681		15,283		25,857	2,281,725
Rent	103,491	1,006,525	8,206,455		9,099	4,756	2,589	1,937		978,555	10,313,407
Utilities	51,469	89,083	1,195,736		15,589	2,593	5,181	139,828		186	1,499,665
Repair and Maintenance	147,495	132,043	12,971,970		10,646	88,480	35,247	1,673,939		10,828,238	25,888,058
Other Expenses	91,311	20,865	34,599		35,578	58,662	263,720	1,605,350		53	2,110,138 ^A
Total Operating Expenses	<u>3,143,679</u>	<u>151,093,873</u>	<u>24,584,645</u>		<u>2,196,223</u>	<u>1,116,542</u>	<u>497,905</u>	<u>6,427,157</u>		<u>15,067,074</u>	<u>204,127,098</u>
EQUIPMENT	584,673	997,191	192,275		77,414	40,229	5,579	3,407,419			5,304,780
Total Equipment	<u>584,673</u>	<u>997,191</u>	<u>192,275</u>		<u>77,414</u>	<u>40,229</u>	<u>5,579</u>	<u>3,407,419</u>			<u>5,304,780</u>
LOCAL ASSISTANCE											
From State Sources	12,503										12,503
Total Local Assistance	<u>12,503</u>										<u>12,503</u>
GRANTS											
From State Sources	14,294,543										14,294,543
Total Local Assistance	<u>14,294,543</u>										<u>14,294,543</u>
DEBT SERVICE											
Bonds	5,307			\$6,721,663					\$ 587,245		7,314,215
Total Debt Service	<u>5,307</u>			<u>6,721,663</u>					<u>587,245</u>		<u>7,314,215</u>
CAPITAL OUTLAY											
Land					3,074,060						3,074,060
Other Improvements			135,062								135,062
Total Capital Outlay			<u>135,062</u>		<u>3,074,060</u>						<u>3,209,122</u>
TRANSFERS											
Accounting Entity Transfers									5,485,308		5,485,308
Total Transfers									<u>5,485,308</u>		<u>5,485,308</u>
TOTAL PROGRAM EXPENDITURES	<u>\$23,594,902</u>	<u>\$167,737,107</u>	<u>\$42,267,150</u>	<u>\$6,721,663</u>	<u>\$11,505,797</u>	<u>\$3,092,649</u>	<u>\$638,301</u>	<u>\$12,856,665</u>	<u>\$6,072,553</u>	<u>\$16,135,946</u>	<u>\$290,622,733</u>

^AIncludes \$57,711 relating to a loss on the sale of fixed assets.

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

	<u>Equipment</u>	<u>Capital Outlay</u>	<u>Stores Inventory</u>	<u>Total</u>
PERSONAL SERVICES				
Salaries	11,744		\$ 991,871	\$ 39,179,086
Other Compensation	295			10,751
Employee Benefits	57,893		22,085	8,102,448
Total Personal Services	<u>69,932</u>		<u>1,013,956</u>	<u>47,292,285</u>
OPERATING EXPENSES				
Contracted Services	30,191		20,064	119,832,181
Supplies and Materials	24,216		3,092,574	7,064,755
Communications	44,560		10,411	616,712
Travel	32,634		15,979	2,155,956
Rent	1,436		832,180	9,033,145
Utilities	23,360		111	1,436,542
Repair and Maintenance	90,834		8,279,978	21,055,156
Other Expenses	14,376		38,338	2,420,566
Total Operating Expenses	<u>61,607</u>		<u>12,289,635</u>	<u>163,615,013</u>
EQUIPMENT				
Total Equipment	<u>73,263</u>			<u>4,133,031</u>
				<u>4,133,031</u>
CAPITAL OUTLAY				
Land				3,363,010
Other Improvements				1,321
Total Capital Outlay				<u>3,364,331</u>
LOCAL ASSISTANCE				
From State Sources				68,750
Total Local Assistance				<u>68,750</u>
GRANTS				
From State Sources				14,199,316
Total Local Assistance				<u>14,199,316</u>
TRANSFERS				
Accounting Entity		\$5,491,876		5,491,876
Total Transfers		<u>5,491,876</u>		<u>5,491,876</u>
DEBT SERVICE				
Bonds		580,207		8,093,574
Total Debt Service		<u>580,207</u>		<u>8,093,574</u>
TOTAL PROGRAM EXPENDITURES AND TRANSFERS				
	<u>14,802</u>	<u>\$6,072,083</u>	<u>\$13,303,591</u>	<u>\$246,258,176</u>

This schedule is compiled from
schedules on pages 28 through 31

DEPARTMENT OF HIGHWAYS
SCHEDULE OF PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1984

	General Operations	Construction	Maintenance	Bonds	Preconstruction	Highway Service Revolving	State Motor Pool	Equipment	Capital Outlay	Stores Inventory	Total
PERSONAL SERVICES											
Salaries	\$ 4,331,988	\$ 11,412,194	\$13,434,506		\$ 4,984,501	\$1,493,323	\$118,959	\$ 2,411,744		\$ 991,871	\$ 39,179,086
Other Compensation	6,147	1,757	1,485		867	200		295			10,751
Employee Benefits	864,481	2,238,934	3,159,023		941,115	291,746	27,171	557,893		22,085	8,102,448
Total Personal Services	<u>5,202,616</u>	<u>13,652,885</u>	<u>16,595,014</u>		<u>5,926,483</u>	<u>1,785,269</u>	<u>146,130</u>	<u>2,969,932</u>		<u>1,013,956</u>	<u>47,292,285</u>
OPERATING EXPENSES											
Contracted Services	1,518,758	115,330,019	1,087,899		975,308	630,411	39,531	230,191		20,064	119,832,181
Supplies and Materials	195,077	233,958	545,841		37,976	198,233	136,880	2,624,216		3,092,574	7,064,755
Communications	195,205	116,430	128,949		91,728	28,490	939	44,560		10,411	616,712
Travel	303,006	1,356,471	180,601		242,751	24,514		32,634		15,979	2,155,956
Rent	71,218	815,512	7,284,869		10,905	16,064	961	1,436		832,180	9,033,145
Utilities	50,278	96,882	1,141,322		15,395	2,775	6,419	123,360		111	1,436,542
Repair and Maintenance	181,092	54,890	11,049,370		4,489	61,257	33,246	1,390,834		8,279,978	21,055,156
Other Expenses	96,672	36,554	21,576		47,081	107,092	258,877	1,814,376		38,338	2,420,566
Total Operating Expenses	<u>2,611,306</u>	<u>118,040,716</u>	<u>21,440,427</u>		<u>1,425,633</u>	<u>1,068,836</u>	<u>476,853</u>	<u>6,261,607</u>		<u>12,289,635</u>	<u>163,615,013</u>
EQUIPMENT	522,910	125,738	172,146		50,410	5,782	(17,218)	3,273,263			4,133,031
Total Equipment	<u>522,910</u>	<u>125,738</u>	<u>172,146</u>		<u>50,410</u>	<u>5,782</u>	<u>(17,218)</u>	<u>3,273,263</u>			<u>4,133,031</u>
CAPITAL OUTLAY											
Land			11,000		3,352,010						3,363,010
Other Improvements			366		955						1,321
Total Capital Outlay			<u>11,366</u>		<u>3,352,965</u>						<u>3,364,331</u>
LOCAL ASSISTANCE											
From State Sources	68,750										68,750
Total Local Assistance	<u>68,750</u>										<u>68,750</u>
GRANTS											
From State Sources	14,199,316										14,199,316
Total Local Assistance	<u>14,199,316</u>										<u>14,199,316</u>
TRANSFERS											
Accounting Entity									\$5,491,876		5,491,876
Total Transfers									<u>5,491,876</u>		<u>5,491,876</u>
DEBT SERVICE											
Bonds	9,289	464,993		\$7,039,085					580,207		8,093,574
Total Debt Service	<u>9,289</u>	<u>464,993</u>		<u>7,039,085</u>					<u>580,207</u>		<u>8,093,574</u>
TOTAL PROGRAM EXPENDITURES AND TRANSFERS	<u>\$22,614,187</u>	<u>\$132,284,332</u>	<u>\$38,218,953</u>	<u>\$7,039,085</u>	<u>\$10,755,491</u>	<u>\$2,859,887</u>	<u>\$605,765</u>	<u>\$12,504,802</u>	<u>\$6,072,083</u>	<u>\$13,303,591</u>	<u>\$246,258,176</u>

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

DEPARTMENT OF HIGHWAYS
SCHEDULE OF ADDITIONS AND DEDUCTIONS TO AGENCY FUND ASSETS *
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

Property Held in Trust Balance, July 1, 1983	\$ 1,495,909
Additions	24,304,074
Deductions	<u>24,193,958</u>
Property Held in Trust Balance, July 1, 1984	<u>1,606,025</u>
Additions	29,581,816
Deductions	<u>29,586,682</u>
Property Held in Trust Balance, June 30, 1985	<u><u>\$ 1,601,159</u></u>

* The Agency Fund accounts for assets held in trust as an agent for others. The department includes the gross vehicle weight (GVW) account in this fund. This account is used to hold fees collected for permits and licenses for later distribution to the appropriate counties and state funds.

This schedule is compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 28 through 32.

DEPARTMENT OF HIGHWAYS
NOTES TO THE FINANCIAL SCHEDULES
JUNE 30, 1984 AND JUNE 30, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Department of Highways operates under a director appointed by the Governor and consisted of the following programs during the audit period: General Operations, Construction, Maintenance, Preconstruction, Highway Service Revolving, State Motor Pool, Equipment, Capital Outlay and Stores Inventory - Maintenance Accounts Receivable.

The following is a summary of the significant accounting policies:

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the department:

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund. Department Special Revenue Funds include the Highway Revenue Bond Proceeds Account, the Coal Area Highway Improvement Account, the Reconstruction Trust Account, the Stores Inventory - Maintenance Accounts Receivable Account, the Bond Construction Accounts, the Earmarked Revenue Account and the Highway Trust Account. The Highway Trust Account reflects receipts and expenditures of federal moneys designated for highway construction projects.

Debt Service Fund - accounts for the accumulation of resources for the payment of General Long-term Debt Principal and Interest. This fund accounts for payments relating to the department's series 1983 Revenue Bonds (\$64,000,000) and Bond Anticipation Notes (\$39,075,000).

Internal Service Fund - accounts for operations that provide goods or services to other agencies or departments on a cost-reimbursement basis. At the Department of Highways the Internal Service Fund includes the Motor Pool, Highway Service and Equipment Bureau Revolving Accounts.

Agency Fund - accounts for assets held in trust as an agent for others. The department includes the Gross Vehicle Weight Account (GVW) in this fund. This account is used to hold fees collected for permits and licenses for later distribution to the appropriate counties and state agencies funds.

Expendable Trust Fund - accounts for assets held by the department in a trustee capacity where both the trust principal and earnings may be expended. The department accounts for the Woodville Highway Account in this fund. The account reflects the proceeds and interest earned on the sale of a section of highway to the Anaconda Company. The department is holding these moneys in trust with the intent that they be used to improve Butte-Silver Bow area roadways.

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

1. System development inter-agency or intra-agency service agreements and other professional service contracts may be accrued at the end of the fiscal year in which created.
2. Equipment expenditures may be charged against the fiscal year in which budgeted.
3. Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

Vacation and Sick Leave

All employees at the department accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination.

Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Department of Highways. Expenditures for termination pay currently are absorbed in the annual operational costs of the department. At June 30, 1985, the department has a liability of \$4,321,260 for vacation leave and \$2,360,246 for sick leave.

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) and various Union Pension Funds. Employee contributions fund the union pension funds, while department and employee contributions fund PERS. The department's contributions to PERS are shown below:

	<u>Fiscal Year</u> <u>1983-84</u>	<u>Fiscal Year</u> <u>1984-85</u>
PERS	\$2,510,011	\$2,693,781

3. BOND SALE

During July of fiscal year 1985-86, the department sold Bond Anticipation Notes totalling \$43,675,000. The notes have variable interest rates and maturity dates as shown below.

<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
\$14,600,000	5 1/8%	12/01/86
14,600,000	5 3/4	12/01/87
14,475,000	6 1/8	08/01/88

4. REVENUE CLASSIFICATION

The department reclassified several types of revenue in accordance with state accounting policy between fiscal years 1982-83, 1983-84, and 1984-85. The revenue type, fund, old and new classifications, and amount are detailed below.

Revenue Types	Fund	Revenue Class			Amount in the Year of Reclassification
		1982-83	1983-84	1984-85	
Mineral Leasing - BLM	Special Revenue		Federal Assistance	Rentals, Leases, and Royalties	\$8,890,580
G.V.W. Collections	Special Revenue		Taxes	Licenses and Permits	9,945,992
User Service Charges	Internal Service	Income, Collections, and Transfers	Reimbursements		11,737,508

5. FIXED ASSETS

The department accounts for fixed assets in the Internal Service Fund and the General Fixed Asset Account Group. The changes occurring during the audit period in fixed assets are detailed in the schedule below.

	June 30, 1983	June 30, 1985	Increase (Decrease)
<u>INTERNAL SERVICE FUND</u>			
Land	\$ 234,649	\$ 234,649	\$ -0-
Equipment	32,770,782	40,015,249	7,244,467
Accumulated Depreciation - Equipment	(14,921,348)	(17,551,442)	(2,630,094)
Construction Work in Progress	294,756	989,610	694,854
<u>GENERAL FIXED ASSET ACCOUNT GROUP</u>			
Land	1,159,335	878,562	(280,773)
Building	24,191,964	25,320,174	1,128,210
Equipment	5,088,870	5,301,791	212,921
Construction Work in Progress	324,355	814,917	490,562
TOTAL FIXED ASSETS	<u>\$ 49,143,363</u>	<u>\$ 56,003,510</u>	<u>\$ 6,860,147</u>

6. FUEL TAX DISTRIBUTION

During fiscal year 1982-83 the distribution of fuel tax was a function of the State Treasurer's Office. However, during fiscal years 1983-84 and 1984-85 the distribution was performed by the Department of Highways. The distribution is accounted for in the general operations program and represents a \$14,075,000 increase in the program's expenditures between fiscal years 1982-83 and 1983-84.

MONTANA DEPARTMENT OF HIGHWAYS
SCHEDULE OF GRANT REVENUE
FISCAL YEARS ENDING JUNE 30, 1984 AND 1985

	<u>Fiscal Year 1985</u>	<u>Fiscal Year 1984</u>
<u>FEDERAL GOVERNMENT</u>		
<u>Federal Highway Administration:</u>		
Highway Planning and Construction	\$126,711,203	\$106,901,691
Minority Business Training	195,032	111,184
Overlay Paving - Miles City	114,286	850,052
Management Rehabilitation Study	209,026	
Asphalt Open House	1,358	
Rural Technical Assistance Program		129,314
<u>Bureau of Land Management:</u>		
Mineral Leasing Act	8,890,580	8,969,324
Total Federal Grant Revenue	<u>136,121,485</u>	<u>116,961,565</u>
<u>OTHER GOVERNMENTAL ENTITIES</u>		
<u>Cities:</u>		
Dillon	3,962	
Plentywood	10,244	
Hamilton	149,244	
Columbia Falls	92,830	
Bozeman	22,898	
Miles City	179,789	
Basin	1,539	
	<u>460,506</u>	
<u>Counties:</u>		
Custer	255,189	
Richland	50,000	
	<u>305,189</u>	
<u>Private Sources:</u>		
Chicago Testing Lab	10,085	
Lakewood Urban Trans.	125,000	
Burlington Northern	192,455	
James Refrigeration	16,468	
Martin City Water District	5,387	
General Public - Map Sales	2,581	
	<u>351,976</u>	
 TOTAL GRANT REVENUE	 <u>\$137,239,156*</u>	 <u>\$116,961,565</u>

*As noted in footnote 4, the department reclassified Bureau of Land Management Revenues from federal assistance in fiscal year 1983-84 to Mineral Leases and Royalties in fiscal year 1984-85. Thus, total grant revenue for fiscal year 1984-85 does not agree to federal assistance revenue as shown on the Schedule of Revenue and Transfers In.

AGENCY RESPONSE

DEPARTMENT OF HIGHWAYS



TED SCHWINDEN, GOVERNOR

2701 PROSPECT

STATE OF MONTANA

HELENA, MONTANA 59620

December 20, 1985

Scott A. Seacat
Legislative Auditor
Room 135
State Capital
Helena, MT 59620

Dear Mr. Seacat:

I am transmitting the Department of Highways' response to the audit report performed by your office for the two fiscal years ended June 30, 1985.

Thank you for your staff's effort and cooperation during the audit.

If you have any questions concerning our response, please call me at 444-6201.

Sincerely,

A handwritten signature in cursive script, reading "Gary J. Wicks".

Gary J. Wicks
Director of Highways

Recommendation #1

We recommend the Department:

- A. Clarify responsibility and authority for counts of gravel materials to ensure the inventory is done in accordance with department instructions.
- B. Assign personnel to review adjustments to MMS for reasonableness.

Response

- A. We concur with this recommendation. Prior to the issuance of the audit report the department consolidated some of responsibilities and authority in the inventory system. Effective December 9, 1985, the Maintenance and Equipment Division assumed responsibility for the budget, inventory, monitoring and contractor takeover of gravel, sand, road oil and plant mix. The Purchasing and Inventory Bureau will retain authority and responsibility for purchasing and required accounting journal vouchers. The department will again issue gravel count procedures prior to the next count and all areas will use only these procedures and will adhere to deadlines without exception.
- B. We concur with this recommendation. The Maintenance and Equipment Division will develop procedures and policy for consistent inventory adjustments based on differences between actual quantity counted and the amount recorded on the Maintenance Management System (MMS). These procedures will be placed in the Accounting Manual prior to July 1, 1986. Personnel in the Centralized Services Division will review the differences and approve requested adjustments prior to entry on MMS.

Recommendation #2

We recommend the department follow its inventory count procedures.

Response

We concur with this recommendation. As the auditors noted the department did issue adequate instructions but there were instances where the instructions were not followed. Although the problem cannot be completely prevented we will take additional steps to ensure corrective action where these have occurred and to reduce the number of cases in the future.

Recommendation #3

We recommend the department follow the year-end cutoff instructions provided by the Department of Administration.

Response

We concur with this recommendation.

Recommendation #4

We recommend the department record revenue in accordance with state accounting policy.

Response

We concur with this recommendation.

Recommendation #5

We recommend the department include costs in the indirect cost rate base in accordance with federal guidelines.

Response

We concur with this recommendation. We agree that the Schedule of Generally Unallowable Indirect Cost Categories listed in the audit may contain some items ineligible for reimbursement by the federal government. However, the items within these categories that would be excluded from the indirect cost base would not materially affect the rate we developed. Additionally, the federal regulations governing the department's Federal Highway Administration (FHWA) funding do not allow indirect cost reimbursement. Consequently, the rate does not affect the amount of reimbursement from FHWA. Nearly \$37,000 of the approximately \$42,000 collected in Fiscal Year 1985 was reimbursement from private individuals or insurance companies. The regulations cited by the auditors do not apply to these reimbursements. The remaining \$5,000 reimbursement was primarily from the Department of Defense for snowplowing at missile sites and the Department of the Interior for plowing Forest Service Roads. The potential overrecovery is insignificant compared to the amount of time required to exclude these costs.

Prior to the audit report, the department decided to develop an alternative method for indirect cost reimbursement. We are negotiating with FHWA a predetermined rate based on these average of the past three years. This will eliminate the necessity for

extensive review of all costs to segregate allowable and unallowable costs. The previous method cost more to develop than the reimbursement received.

Recommendation #6

We recommend the department revise its ACF2 rules to limit access to programs and data files to only those employees needing it to perform their duties.

Response

We concur with this recommendation. As the audit noted, the department had developed access rules to allow only Department of Highways employees access to the department's computer files. These highway users could only read files unless it was their file. The rules were sufficient to prevent unauthorized changes to these files but, as the auditors recommend, not all users need access to all files. We have restructured our access rules to restrict all access to critical files to only authorized employees. We appreciate the auditors identification of this problem.

Recommendation #7

We recommend the Department of Highways establish a policy discouraging the use of easily-guessed passwords.

Response

We concur with this recommendation. We have now changed passwords on critical files and program libraries to non-trivial or easily-guessed passwords. Some non-critical files may still use this type of password because of a large number of infrequent users. This would cause unnecessary delay for users. These non-critical files have "read only" access so unauthorized modifications can not occur. We have now included these rules as part of our systems development procedures. We will establish a written policy for access rules and passwords in the department's Data Processing Users Manual in the next several months.

Recommendation #8

We recommend the department ensure access privileges are cancelled for terminated employees.

Response

We concur with this recommendation. We will establish a procedure to obtain a biweekly listing of terminated employees from the payroll system and immediately cancel access privileges.

Recommendation #9

We recommend the department develop written systems development and testing standards.

Response

We concur with this recommendation. We have finalized our systems development standards. These standards are required in any new systems development. We have drafted testing standards and will finalize them in the next several months.

GJW:WGS:jb:ml:4f

